Chain Store Age
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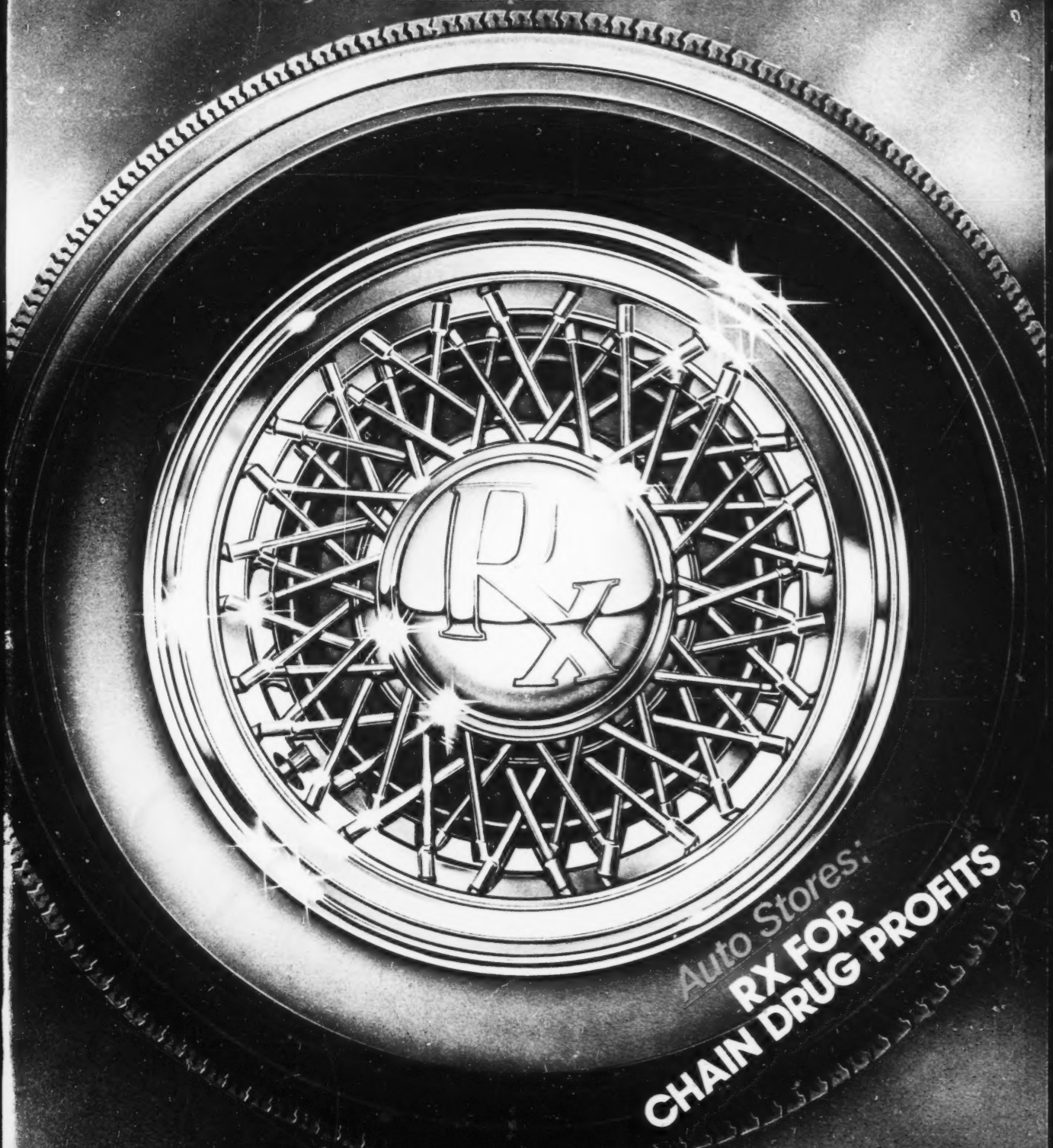
September 1984



Auto Stores: RX FOR CHAIN DRUG PROFITS

TWENTY DOLLARS A YEAR (USA)

Chain Store Age EXECUTIVE Volume 60, No. 9/September 1984

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provement area," adds Wintzer. "There's a real need for the specialty store approach, the right selection and qualified sales help. The drug chains have expertise in those areas. They've also got real estate skills, warehousing know-how and—more than anything—money to invest. They're cash-rich."

Nor are the auto parts stores all that strange an animal to the drug store operator. Chain drug execs say that it may be a greater challenge to make the consumer feel comfortable in the store, and more of a need to explain the use of product. Also, not all locations that match up with the drug store will also fit the auto parts store, since high-income areas don't breed a lot of do-it-yourselfers. But the similarities outweigh the differences.

"There's a lot of similarity between ADAP's operation and ours," says Ruble. "The stores depend on a distribution center for the majority of their merchandise, for instance. They're 8,000 to 10,000 sq. ft. and they're in a mixture of locations—some freestanding and some in strip shopping centers."

The payoff, of course, is in profits. (Of all the drug chain-owned auto parts operations, only Trak Auto West is not yet profitable.) In the first three quarters of fiscal 1984, for instance, Schuck's posted an operating profit-to-sales ratio of 10.1%, about double that of Pay 'n Save.

"Look at Pep Boys," says Wintzer. "They've got a 4.7% after-tax profit and a 16.8% return on equity—and they're in a turnaround situation. They may not have even peaked yet."

Most major drug chains would give their eyeteeth for a 4.7% after-tax profit, however. Of the industry leaders, only Rite Aid and Duane Reade, New York, N.Y., achieved better marks in that category this past year. And only a dozen drug chains exceeded a 16.8% return on equity.

Will the trend continue? Will other drug chains work their way under the hood of the auto supply store vehicle, whether through acquisition or internal experimentation? Industry observers say yes.

"We see this as a healthy diversification," says Roth. "We think it's inevitable, but on a selective basis, of course. Whether or not you look at such acquisitions depends on management's orientation. Some companies will prefer not to diversify and they'll be successful."

"Sure it will continue," says Wintzer. "In the drug store industry, there's a herd instinct. They watch each other like hawks, and when they see something that works, they all jump on it." ■

—Michael Friedman

Retailers developing methods to gauge productivity

Since the beginning of the 1980's recession, a major buzzword in the retail industry has become productivity. During this period higher operating costs coupled with a slowdown in sales growth have forced retail executives to come up with new methods of measuring performance.

As Fred Wintzer Jr., a retail analyst for Shearson Lehman/American Express says, "Although retailers began paying more attention to productivity earlier, it was during the recession of 1979-83 that so much emphasis was placed on the concept. One reason is that this country realized that our productivity was down compared with other countries. We wanted a better way to measure it."

He adds that the calculation of many of these productivity measurements was made possible "because of the development of minicomputers, along with scanning and electronic reordering systems. These gave retailers the tools to do the measuring."

A recent research study conducted by *Chain Store Age Executive* indicates that the majority of retail chains, or 63%, are utilizing more than one method to assess productivity performance. Sales per labor hour is the measure now being used most frequently, or by 58%. The survey respondents include supermarket, discount, drug, department store, home center and specialty store operators.

According to the survey, in 1983 estimated sales per labor hour averaged $60.30. Examined by retail sector, those at the supermarket level are highest at $80.20, followed by the discount stores at $61.10, home centers at $57.50, drug chains at $55.50, department stores at $48.60 and specialty stores at $40.90. The majority of the respondents, or 84%, report that these numbers are up from 1982. The average increase is 8.2%.

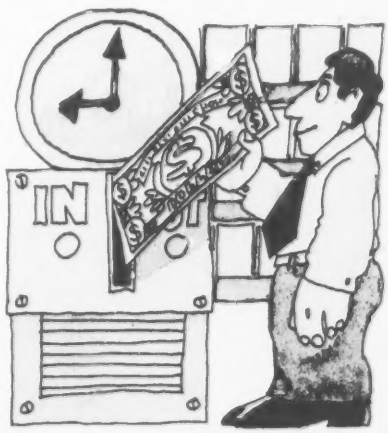
As for 1984, 88% of the respondents also expect to see further rises, increasing an average 7.3%.

Next in popularity is sales per gross square foot, used by 46% of the respondents. In 1983, this figure averaged an estimated $160.80, up approximately 9.3% from the year earlier figure and expected to climb an average of 6.9% during this year.

Such sales, as might be expected, are the highest among the specialty store chains, at $235. They are the lowest for the discount store and department store categories, at $130 and $132.10, respectively.

Sales per net square foot, cited by 43%, follow sales per gross square foot in popularity of usage. These also rose in 1983, up by an average of 8.9% to an estimated $151.50 for the total group.

These too are highest for the specialty store chains, at $265 per net



1983 estimated sales per labor hour*

	Total	Discount	Drug	Supermarket	Department	Home Center	Specialty
(Bases:)	(105)	(17)	(18)	(26)	(18)	(16)	(10)
	%	%	%	%	%	%	%
Less than $25	8	—	6	4	6	6	40
$25-$50	24	29	28	12	33	25	20
$51-$75	15	18	22	4	6	31	20
$76-$100	19	12	17	42	11	6	10
$101 +	5	6	—	12	—	6	—
Refused comment	13	12	6	15	17	19	10
Don't know/No answer	16	24	22	12	28	6	—
(MEAN)	($60.3)	($61.1)	($55.5)	($80.2)	($48.6)	($57.5)	($40.9)

*for chains using this system

Source: *Chain Store Age Executive* research

1983 estimated sales per net square foot*

	Total	Discount	Drug	Supermarket	Department	Home Center	Specialty
(Bases:)	(78)	(14)	(14)	(10)	(27)	(6)	(7)
	%	%	%	%	%	%	%
Less than $50	8	—	14	40	—	—	—
$50-$100	13	36	7	—	7	33	—
$101-$150	28	29	29	—	41	17	29
$151-$200	15	14	21	—	18	17	14
$201-$250	5	—	7	10	4	17	—
$251-$300	3	—	—	10	4	—	—
$301-$350	—	—	—	—	—	—	—
$351-$400	—	—	—	—	—	—	—
$401 +	5	7	—	10	—	—	29
Refused comment	14	14	7	20	11	17	29
Don't know/No answer	9	—	14	10	15	—	—
(MEAN)	(151.5)	(139.6)	(127.7)	(158.6)	(145.0)	(135.0)	(265.0)

*for chains using this system

Source: *Chain Store Age Executive* research

1983 estimated sales per gross square foot*

	Total	Discount	Drug	Supermarket	Department	Home Center	Specialty
(Bases:)	(83)	(13)	(19)	(16)	(13)	(11)	(11)
	%	%	%	%	%	%	%
Less than $50	10	—	5	38	—	—	9
$50-$100	13	23	5	—	15	46	—
$101-$150	24	46	37	—	23	9	27
$151-$200	11	—	21	6	8	18	9
$201-$250	4	—	10	—	8	—	—
$251-$300	2	—	5	6	—	—	—
$301-$350	4	8	5	—	—	—	9
$351-$400	2	—	—	—	—	—	18
$401 +	5	—	—	12	—	9	9
Refused comment	17	15	5	19	31	18	18
Don't know/No answer	8	8	5	19	15	—	—
(MEAN)	(160.8)	(130.0)	(181.2)	(159.0)	(132.1)	(144.4)	(235.0)

*for chains using this system

Source: *Chain Store Age Executive* research

square foot, and lowest for the drug chains, at $127.70 and the home center operations, at $135.

However, while the retail industry on average expects this number to increase by 8.4% for all of 1984, the biggest jump is expected by the home center retailers, estimated at 17.5% *(see accompanying story)*.

In addition to differences in actual performance as judged by these various measurements, there are also major variations among the retail classifications in frequency of use of these different calculations.

For example, among supermarkets, sales per labor hour is clearly the most prevalent measurement, cited by 87%, significantly higher than in any other retail segment. This is logical in view of the fact that supermarket retailing is the most labor intensive industry segment—and also has the highest labor cost per hour due to the strong degree of unionization within the industry.

However, in addition, 53% of the supermarket respondents indicate that they calculate productivity by weekly sales per square foot of selling area and by sales per gross square foot. Other measures cited by supermarket operators include annual sales per employee, 40%, sales per net square foot, 33%, and weekly sales per employee, 33%.

Sales per labor hour is also the primary productivity determinant for discount chains, cited by 57%, followed by sales per net square foot, 47%, and sales per gross square foot, 43%.

Sales per gross square foot and sales per labor hour are used almost equally by drug store chains, cited by 63% and 60%, respectively, followed by sales per net square foot, utilized by 47%.

The survey shows that in 1983, sales per gross square foot averaged $130 for the discount chains and $160.80 for the industry as a whole. These sales were highest for the specialty store group, at $325, and lowest for discount stores and department stores, at $130 and $132.10, respectively.

Home centers appear slightly more inclined to calculate productivity through annual sales per employee, used by 60%, followed by sales per labor hour, at 53%.

Coincidentally, the survey results indicate that for 1983, annual sales per employee were highest at the home center level, at $128.10 (and lowest for the supermarket chains at $79.30).

For the total survey group, these sales averaged $97.80 in 1983. Eighty-six per cent of the respondents report that this is up from the previous year's figure, by an average of 10.5%, and 83% expect the measurement to show further increases this year, rising by an average of 7.7%.

The major differences in usage of these various calculations as a measure of productivity are seen in the department store category. Here sales per net square foot is shown to be the dominant measure used, cited by 90%. Sales per labor hour is the next most frequently used, at 60%, followed by gross profit per net square foot at 50%.

Somewhat surprisingly in view of the popularity of this calculation, gross profit per net square foot is lowest for the department stores, at $61, and highest among the supermarkets, at $175. These classifications are followed by the specialty stores and the drug stores, both at $110, and by the discount stores, at $86.70. This measure is not used at all by the home center group, according to the survey. During 1983, the figure averaged $94 for the total group.

Seventy-eight per cent of the respondents report that this number too climbed in 1983 above the year earlier figures, and 78% also expect further increases this year. Last year's increase averaged 10.7% and this year gross profit per net square foot is expected to climb by an average of 6.9%.

The survey indicates that the specialty stores use no one dominant method for measuring productivity. However, annual sales per employee is being used by the largest proportion, 40%, and gross profit per net

Methods used to measure overall productivity

(Base:)	Total (180) %	Discount (30) %	Drug (30) %	Supermarket (30) %	Department (30) %	Home Center (30) %	Specialty (30) %
Sales per labor hour	58	57	60	87	60	53	33
Sales per gross square foot	46	43	63	53	43	37	37
Sales per net square foot	43	47	47	33	90	20	23
Annual sales per employee	40	27	33	40	40	60	40
Gross profit per gross square foot	23	17	23	10	27	27	37
Gross profit per net square foot	20	27	17	7	50	—	20
Other	12	10	20	10	10	—	20

Source: *Chain Store Age Executive* research

Methods employed to improve productivity

(Bases:)	Total (180) %	Discount (30) %	Drug (30) %	Supermarket (30) %	Department (30) %	Home Center (30) %	Specialty (30) %
Changing merchandise mix	73	70	80	53	67	77	70
Improving training for sales staff	72	73	80	67	80	73	60
Redesigning store	67	80	60	73	63	53	73
Adding/improving POS equipment	52	60	33	73	43	53	50
Changing staff mix in departments	39	43	33	47	53	30	30
Adding or improving non-POS computers	34	30	33	40	47	17	40
Creating incentives for sales staff	32	30	30	17	33	33	47
Reducing existing selling space	15	20	13	7	27	7	17
Building smaller stores	14	20	27	3	10	7	20
None of the above	2	3	3	—	—	—	3

Source: *Chain Store Age Executive* research

square foot is being used by the smallest proportion, or 20%.

In addition to the measurements already reported, there are three methods of productivity being used peculiar to the supermarket industry. These are: estimated weekly sales per square foot of selling area; weekly sales per employee, and estimated weekly sales per checkout.

For 1983, the survey shows that estimated weekly sales per square foot of selling area averaged $23.30, up approximately 5.9% from the year earlier calculations. This measure is expected to rise by a further 3.8% during the current year.

Weekly sales per employee reached an average of $2,900 in 1983, according to the survey, up 6.1% from 1982 and expected to increase a similar 6.2% this year. Weekly sales per checkout averaged $20,000, up 2.5% from 1982's levels and expected to increase at the same rate in 1984.

Among the other measures used to determine productivity mentioned by the respondents are the following: sales per linear foot; overall store gross profit; sales per selling square foot; sales per labor hour per employee; monthly sales per employee, and net profit per gross square foot.

On average, payroll represents 13% of total sales among the respondents surveyed. Thirty-five per cent of those questioned designate payroll in the 6% to 10% range, while 30% indicate it is in the range of 11% to 15%.

The average percentage of total sales represented by payroll varies slightly by the different classes of trade, ranging from a high of 16.4% reported by specialty stores to a low of 10.1% noted by the supermarket group. Nearly two-thirds, or 63% of the respondents surveyed, calculate payroll totally on computers.

Annual sales per employee were highest for home centers, $128.10; lowest for supermarkets, $79.30

As for which of the measurements is actually believed to be the most important indicator of productivity, corresponding to the earlier finding, sales per labor hour is the most important, according to 41%.

It is particularly dominant among the supermarket retailers, cited by 77%, and also judged most important by the home center, drug and discount store retailers, cited by 37% of each group. Somewhat surprisingly, it is also designated as most important by the department store respondents, also standing at 37%.

Re-emphasizing the uniqueness of the category's operating concepts, the biggest differences are in the specialty store classification. Here 27% of the respondents select annual sales per employee as their most important measure, while 20% select sales per labor hour and 20% select sales per gross square foot.

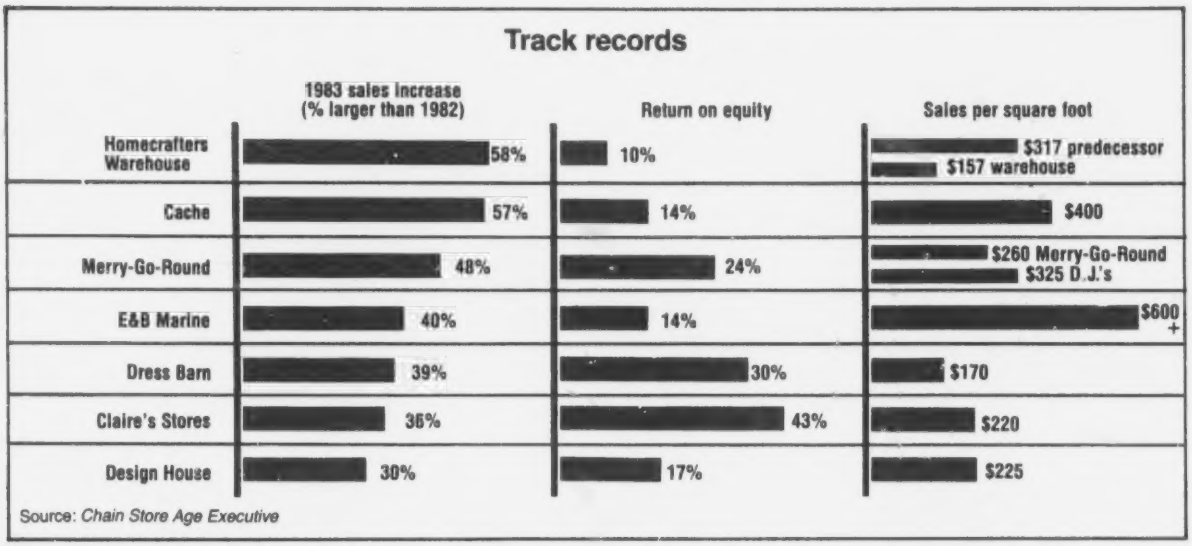
Retailers are obviously employing a number of methods to improve overall productivity in their chains. The survey results show that those being used most frequently by the respondents are the following: changing merchandise mix, utilized by 73%; improving training for sales staff, used by 72%, and redesigning of the store, being carried out by 67%. In addition, more than half of the respondents, or 52%, say that they added/improved point-of-sale equipment sometime during the past year.

Other methods used less frequently, but by at least one-third of the respondents, include: changing staff mix in departments, 39%; adding/improving non-point-of-sale computers, 34%, and creating incentives for sales staff, 32%. Measures utilized much less frequently include reducing existing selling space, cited by 15%, and building smaller stores, an activity undertaken by 14%.

Taking a closer look at the methods employed by the different retail groups, the survey finds that the redesigning of the store is the productivity improvement activity undertaken most frequently by the discount store industry (80%), the supermarket operators (73%) and by the specialty store group (73%). Changing the merchandise mix is No. 1 for the department stores (87%), for the drug chain retailers (80%) and for the home center classification (73%).

Improved training for sales staff is also a popular choice across the board. The breakdowns are as follows: 73%, discount stores; 80%, drug chains; 67%, supermarkets; 80%, department stores; 73%, home center chains, and 60%, specialty stores.

It now appears that one of the lasting effects of the recession is that productivity has joined profitability as an important indicator of store performance and management success. ■



On the track with explosive starts

Emerging growth companies are experiencing sharp sales increases and chalking up impressive earnings

About 28 years ago, a father and his 17-year-old son started a small Government and industrial surplus business in Staten Island, N.Y., on a shoestring with an investment of $540. Fairly early in his career the young Bob Bench discovered that selling marine paints at a 30% discount produced a stampede. So Bob and his brother Jerry decided to enter the discount boating supply business.

Last year, Bob Bench, chairman, and Jerry Bench, president, watched E & B Marine ring up sales of $31.3 million. The 13-unit chain, which displays every indication of becoming a national chain, has blossomed through an entrepreneurial spirit endemic to the country's fastest growing retail segment—specialty retailing.

The Benches are but one example of how a number of specialty retailers experienced sharp sales growth (in excess of 30%) last year while chalking up impressive earnings into the bargain.

What these emerging growth companies have in common is a specialty, a niche in the market that other retailers have neglected or never even imagined. These retailers are marketing merchandise that ranges from plumbing parts to evening gowns, and pulling in sales that range from $157 per square foot to over $600 per square foot. And their unusual specialties make them much in demand with developers.

These chains are not new, for the most part. Some of them have been in business for almost three decades. Most of them are new to the public arena; with many going public within the last year.

Chain Store Age Executive has selected a few of what it considers the emerging winners of tomorrow.

These include E & B Marine, the oldest company in the group, and Homecrafter's Warehouse, the youngest— only two years old. It went public last January, and if its current results are a tip-off, it may lead this group of specialty retailers in explosive sales growth. Its first-quarter sales growth was 60% over sales from comparable stores before the company was formed under new management last year.

E&B Marine's Robert Bench: "Our market share will be 24% in the next five years."

These chains have seen fast-track expansion propel rapid sales gains in recent years. The growth is more than a flash in the pan, although it is not expected to continue at these stratospheric levels. These retailers are developing systems and personnel to sustain profitability during the period when expansion takes precedence over marketing. Many of them will become national chains in the next few years.

Stephen Wiley, executive vp and treasurer of Homecrafters Warehouse, describes how that company has taken pains since its inception to insure orderly growth. A 10-year veteran of W.R. Grace's home center division during its tempestuous days of expansion in the 1970s, Wiley says that the only thing he worries about is growth.

"The rate of growth is the secret in terms of the infrastructure and how it can adapt," he says, pointing out that "Growth puts tremendous pressure on an organization."

The company was formed in August of 1983, and in October purchased 36 stores (Homecrafters Centers) from the Union Camp company. Those "predecessor" stores, ranging in size from 8,000 sq.ft. to 35,000 sq. ft., have been joined by nine warehouse stores averaging 70,000 sq. ft.

The chain's earnings went from a

←For more information circle 17 on reply card.

Comparative data

	1983 sales (in millions)	1983 net earnings (in millions)	Number of stores	Average store size (sq. ft.)	Annual inventory turns	Annual advertising budget (as a % of sales)	Years in business	Went public
Homecrafters Warehouse	$104	$0.6	34 predecessor 9 warehouse	12,000 predecessor 70,000 warehouse	6.0	5.0%	2	January 1984
Cache	11	0.4	28	2,000	3.5	3.0	9	February 1981
Merry-Go-Round	112	7.0	247	2,000 Merry-Go-Round 3,000 D.J.'s	6.0	1.5	16	July 1983
E&B Marine	31	2.0	13	9,300	5.5	4.0	28	April 1983
Dress Barn	43	2.0	101	4,500	5.5	2.0	25	May 1983
Claire's Stores	36	4.0	218	850	3.5	2.0	23	1964 (Formerly F. T. Industries)
Design House	13	0.6	21	4,500	3.5	8.0	11	October 1983

Source: *Chain Store Age Executive*

loss of $515,000 in 1982 to a bold profit of $579,000 in 1983. During that same period, there was a 58% sales increase, and the first quarter of this year saw a 60% increase over the same period last year in comparable store sales. This increase is notable because home centers traditionally have the strongest sales in the second and third quarters of the year.

At Homecrafters Warehouse, the principals are not worried about having the cash to expand. Wiley says that capital expenditures for 1984 will probably reach $6.5 million. The chain has a long term debt of $4.3 million. The 34-store chain was started from an existing company, thereafter acquiring 1,000 employees, a cash base, and sophisticated MIS systems as a base to grow from.

Perhaps more than any other company in this group, Homecrafters Warehouse is planning systematically for even, sustainable growth.

George Hanzi, ceo and a veteran retailer and consultant, has had plenty of experience in starting up chains including Gulf Mart, a discounter, Handy City and Handy Dan—both home center operations which were subsequently sold to W.R. Grace, the country's largest home improvement retailer. He also worked as a consultant to Sherwin Williams and K mart.

According to Hanzi and Wiley, the whole reason for acquiring Union Camp's Homecrafters stores was to provide a cash cow, personnel and viable systems from which to launch a warehouse-style home center chain. The chain now includes 34 predecessor stores and nine warehouse stores.

E & B Marine, which evolved through a family's keen sense of the market, seems as if it were dreamed up in a multimillion R&D operation. It incorporates a little of all the current research trends. It caters to affluent customers who can afford boats and offers every customer the chance to sweeten the coffers further through its direct-mail campaign and catalog. With $10 million in sales, it was 20% of last year's revenues.

Even though the chain must produce the lion's share of its revenue during the period from April 1 to Sept. 30, annual sales of $31.3 million represented a gain of 40% in 1983. Net earnings rose 68% to $1.9 million during the same period.

E & B's 13 units have practically no competition as there are only two other specialty chain retailers of boating supplies. One has just two stores.

Robert Bench, chairman, points out that, "According to a trade publication published by the Marine Manufacturing Association, E & B Marine has 4½% of the marine supply market. They say that in 1983 the market was $700 million.

"Our market share will be about 24% of the market in the next five years. That would be about $150 million. I figure we'll do about $65 million in 1985 when we end the year with about 27 stores."

Bench's vision of the future involves a national chain with 60 to 75 stores within five years. "You'll see stores in Detroit, Chicago, Cleveland and Toledo," says Bench, whose stores are now concentrated on the Eastern Seaboard.

The 9,300-sq.-ft. stores are in leased locations with an average rent of $6 per square foot. The real workhorse stores are the six freestanding units, with sales 10% to 12% ahead of E & B's mall units.

Claire's Stores is a 225-unit, low-priced retailer of costume jewelry and handbags that has done well in good times and in bad. Opened in 1961 and acquired by FT Industries in 1974, the chain became the main profit center of that corporation. In 1983, FT Industries sold off all its business and took the name of its favored child—Claire's Stores. Last year, the $36 million company had a 36% sales increase and a 38% earnings increase to $3.9 million.

According to Rowland Schaefer, the 67-year-old, no-plans-to-retire chairman, the operation has been profitable since its inception. He points out that business was strong even during the recent recession, and "We have a number of stores in Detroit, Flint and Rockford. During the recession, those stores had 20% to 30% store-for-store increases."

The stores' gross profit margin—49.4%—is one of the highest in the industry. It also has a strong after-tax profit margin of 6.7%.

The productivity (sales of $220 per square foot) of these simple 885-sq.-ft. stores stacks up impressively next to department stores and mass merchandisers. These results are achieved with practically no advertising—only what is required by mall developers. And there appears to be a wide-open market for continued expansion and growth. Schaefer expects 240 units to be open by year's end, plans to add 70 stores in 1985 and 100 the following year. "After all," he says, "there are about 2,500 malls out there for us to go to."

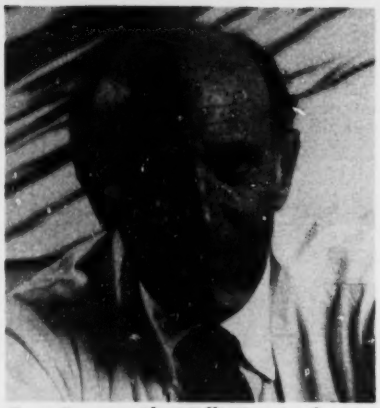
The 70 stores being launched in 1985 will be financed by internally-generated funds at a cost of $4 million to $5 million, according to Schaefer, who indicates that subsequent years' expansions will be handled in the same fashion. The cost of opening a new store is reported to be about $60,000.

While Schaefer does not care to reveal the average rent he pays, it is clear that these stores are low overhead operations. They generally have only two full-time employees per store, sometimes with an occasional part-timer. The chain has one cen-

trally located distribution center. Long-term debt was reduced from $5 million and change to $340,000 in 1983.

Cache is a 28-unit women's apparel chain designed to serve a high-income female consumer in regional shopping centers around the country. From Copley Place in Boston to Beverly Center, Los Angeles, the chain practices the Cadillac theory of retailing. Sales of $11 million were up 58% from the year before, and income from store operations—$2.6 million in 1983— was up 99% from 1982. Gross income as a percent of sales was 2.5% higher in 1983 than in 1982. Net earnings were up dramatically to $402,428 or 9¢ per share.

The chain was started in 1975 by Marilyn Rubinson, chairman. Her son, Mitchell Rubinson, is president and is responsible for operations and planning. He is candid about the good fortune that the chain has had and admits that in the beginning the operation was not terribly sophisticated. He indicated that the merchandising was done by feel in the beginning, but things have changed. "Our stores are profitable in the first week; we only had one store that took a year, and we've only had to close one store."



Dress Barn president Jaffe: Keeping the company in the public eye.

Mitchell Rubinson is calling for a chain total of approximately 40 stores by year end and a stepped-up expansion program—to bring the total to 80 units in the next three years, and about 160 stores in five years. Rubinson is optimistic about the availability of locations: "We have identified 125 locations," he says.

This past year, headquarters and distribution facilities were enlarged from 3,500 sq. ft. to 20,000 sq. ft., which Rubinson feels confident will accommodate the growing company for at least the next five years. He considers Cache to be "on the fastest track in the country. Our growth is compounding at 50% a year." And Terence McEvoy, first vp at Dean Witter Reynolds, concurs with that estimate.

The firm is extremely selective in recruiting. "We pay well to get the right people. We use both a psychological profile and polygraph in hiring. By the time we get the test results we know who they are," says Rubinson. He sees to it that the stores are shopped blindly twice a month to insure consistent service. These salesmen have chalked up sales per square foot of $400, and annual sales per employee are about $100,000.

Cache's greatest expenses stem from its rapid expansion of the store network, but costs seem to be manageable mainly because of developer support. McEvoy points out that "Shopping center developers are eager to have Cache as a tenant, and in most cases are paying for 50% to 75% of the leasehold and fixture costs necessary to open a new store. Despite a 15- to 20-unit annual expansion program in 1984-85, capital expenditures are not expected to run much above $250,000 per year. New stores generally require $150,000 of inventory, which can be handled by a combination of accounts payable and internally generated funds."

Design House International has been selling Scandinavian furniture for 11 years. According to David Kameron, president, 77% of the merchandise is imported, and the 21 stores sell enough that"We've become an important factor to manufacturers," he says. And this budding Southern chain is also an important factor to mall developers.

"There is space for our kind of operation in regional malls. What they don't need is another dress shop or shoe store," says Kameron. Sales of $12.8 million in 1983 were 30% above the prior year and comparable store sales increased 15% last year. Earnings increased 55% to $606,000 in 1983, and Kameron predicts an approximate 64% gain in 1984.

The main distinction between this furniture retailer and its competition is that Design House has been able to operate successfully in upscale regional malls while similar chains have concentrated their efforts on freestanding stores and city locations. "They don't know how to make money in malls," he says, pointing out that the average rent is $13 to $14 per square foot.

"We've taken an attitude that's different from the mom-and-pop operators. We get high volume per square foot. Our stores average 4,500 sq. ft. and have more selection than many

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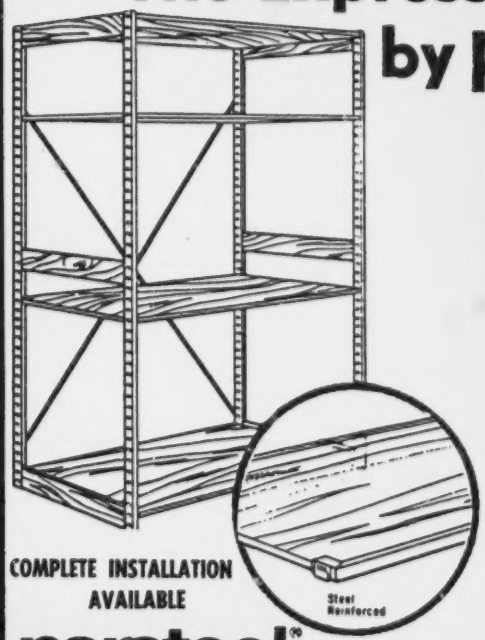

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stores of 20,000 sq. ft. Sales per square foot are $225, when the industry average is $75 or $80 per square foot," says Kameron.

Another difference between Design House and the competition is the fact that unlike other purveyors of furniture, this company accepts no installment sales. Design House does not offer credit on purchases, but they do tell their customers where to go for third-party credit. About 15% of sales are estimated to come from sources like Household Finance.

By year-end, the chain will number about 29 units and Kameron expects to spend about $1 million on store expansion this year. To build a store and put the inventory in place costs approximately $160,000, according to Kameron. " Of course, there are economies of scale when more than one store is being put in a market," says Kameron.

Last year the major expenditures were for warehouse improvements—Design House has a ratio of 65 sq. ft. of warehouse space to every square foot of retail space.

With small stores averaging 4,500 sq. ft., where the merchandise is on display but not for sale, Design House has no need for complicated POS equipment.

Advertising, which is done primarily in newspapers and four-color inserts, is high—about 8% of sales. That's partly because the entire operation is done in-house and the number includes salaries and materials. This year, however, according to Kameron, that number will drop to about 6%. In markets that do not have a substantial number of stores more advertising is required, so Design House concentrates ads in markets such as Houston and Miami.

Dress Barn is a "new" off-pricer that's been around for a quarter of a century, but has only gained notice since it went public in May of 1983. Its expansion has stepped up in recent years: from 21 stores in the Northeast in 1978, it added eight new stores in the following two years. In 1981, nine stores were opened, and in 1982, 11 stores were added. In 1983, the rate tripled with the opening of 33 stores. The company's sales rose 39% in 1983 to $43 million.

Cache's income from store operations in 1983 was up 99% from 1982; sales were up 58% to $11 million

"We grew up in Connecticut. Then we spread to Westchester and New Jersey where we are known as Clothes Barn. Now we're located from Maine to Florida," says Elliot Jaffe, president.

This year, The Gap stores closed out its Tags off-price operation and Dress Barn acquired four stores in Detroit and San Francisco. Industry observers point out that the Northeast is the most competitive off-price market, and the supposition is that "If you can make it there you can make it anywhere."

The cost of a typical new location is about $120,000, according to Jaffe. The company is in a strong cash position, one that the analysts call "overcapitalized"—with working capital in excess of $6 million and an unused bank credit line of $3 million.

The company went public in May of 1983 to obtain funds, "to continue to fuel a rapid expansion program and make acquisitions," says Jaffe, who adds that another motivation was to keep the company in the public eye.

"They stack up very well. They are unique among off-pricers, with more current goods and regular programs. They just buy a little later in the season and don't ask the terms that department stores ask," says Fred Wintzer, first vp-Shearson Lehman/American Express, of Dress Barn.

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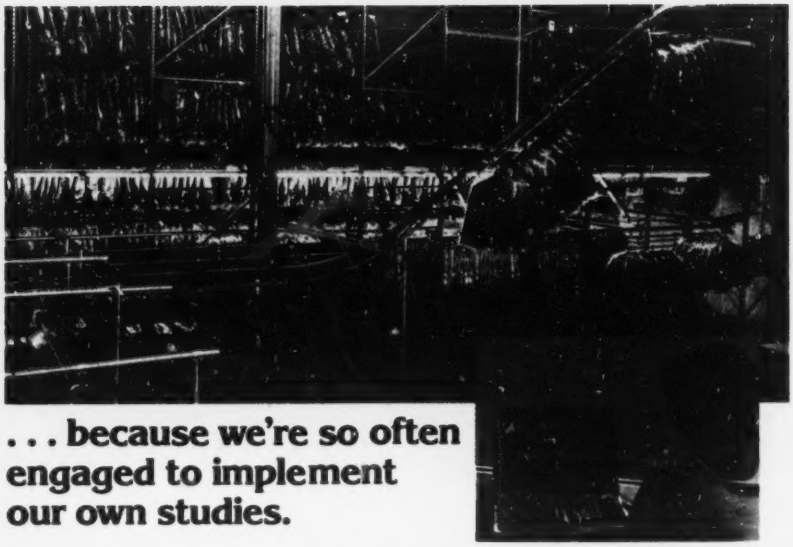

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"Our strongest markets are where we have a reasonably affluent customer," says Jaffe, who points out that these sophisticated consumers are generally found in metropolitan areas. The only areas that Jaffe considers to be problem markets are those with lower income customers, and there the merchandise mix has had to be adjusted.

In the main, the chain competes with department stores such as Macy's, Bambergers and A&S. But according to Jaffe, Dress Barn does it with a more service-oriented style than other off-pricers: "Our merchandise is patterned after stores like Casual Corner and The Limited," he says.

Merry-Go-Round is a clothing retailer whose key strategy is targeting a very narrow market through an intense advertising campaign. And although this 249-store company is driven by advertising, the annual advertising budget only amounts to 1% of sales. In 1983 Merry-Go-Round posted sales of $111.7 million, a 48% increase over 1982. Earnings rose 108% to $7.3 million, or $1.79 a share, compared with $3.5 million, or 88¢ a share the prior year.

These impressive results at the Merry-Go-Round (204 units), Ship'n Shore Showcase Shops (10 units), and D.J.'s (35 units) chains that comprise Merry-Go-Round were achieved through music video-style advertising on MTV. "We do radio and MTV and no print. The only print advertising we do is what is required by our lease with mall developers. We tested direct mail, but there was no response. Our customer tends to be audiovisual," explains Michael Sullivan, president.

In terms of continued expansion and growth, Sullivan sees limited opportunities for the Merry-Go-Round Stores, which specialize in medium-priced unisex apparel, but plenty of room for DJ's, which sells trendy young men's apparel. While Sullivan estimates that there are 25 or so good mall locations left for Merry-Go-Round, he echoes the sentiments of many developers in that he sees the real future in downtown locations.

Merry-Go-Round has no debt, is self-financing and has the cash clout to continue store expansion of about 20% a year. Sullivan does not expect current levels of growth to last indefinitely and he expects the rate of growth to tone down to a manageable 20% annually. Right now the plan calls for the addition of about 40 stores a year, and capital expenditures budgeted for 1984 will total about $7 million to $9 million. That is a position the company can easily support with $10 million in cash. ■

Retailers and developers should continue to benefit from the economic recovery at least through the remainder of 1984.

Survey says sales still strong

Average sales per square foot of shopping center GLA are now running at $167.60, approximately 6% above 1983's level of $157.30, and may climb still further before the year is over.

This is one of the chief findings of a recent research study conducted by *Chain Store Age Executive* which looks at shopping center sales broken down by size of center, by geographic region and by retail category. Specific comparisons between regional centers and small centers are also included.

Respondents in the study were asked to indicate ownership or management responsibility for the following types of shopping centers: regional malls, neighborhood/strip centers, outlet/off-price centers, festival centers and mixed-use centers.

Two-thirds of the respondents answered that they presently own or manage regional malls while nearly one-half of the developers (66% compared with 46%) have similar responsibility for neighborhood/strip centers. Approximately 10% are involved with outlet/off-price centers, while 8% are involved with mixed-use centers and 4% with festival centers.

For the sample as a whole, the average size in GLA of shopping centers presently owned or managed is 581,000 sq. ft. Specifically, 42% of the respondents indicated that they own or manage centers 1 million sq. ft. or larger, while 58% are involved with centers ranging in size from 751,000 to 1 million sq. ft. Further breakdowns include: 52% are involved with centers in the range of 501,000 to 750,000 sq. ft.; 64% are involved with centers between 201,000 and 500,000 sq. ft.; 60% own or manage centers between 101,000 and 200,000 sq. ft., and 44% are involved with centers 100,000 sq. ft. or less in size.

Centers of 501,000 sq. ft. or more represent the greatest sales growth potential for the remainder of 1984

The research also indicates that for 1984 to-date, the larger the shopping center, the higher the average sales per square foot of GLA. Specifically, centers of more than 1 million sq. ft. (the largest size range which was investigated) are generating the highest average sales at $194. In comparison, the smallest centers investigated, those 100,000 sq. ft. and less, are generating sales averaging $139.

Respondents also reported the following breakdowns: $184 for centers from 751,000 to 1 million sq. ft. in size; $184 for centers in the range of 501,000 to 750,000 sq. ft.; $155 for those centers ranging between 201,000 and 500,000 sq. ft., and $149 for centers with between 101,000 and 200,000 sq. ft. of GLA.

Not only do the larger size centers currently account for the higher volume per square foot, but 66% of the developers queried believe that cen-

Average sales per square foot of GLA in 1984

	100,000 Sq. Ft. Or Less	101,000-200,000 Sq. Ft.	201,006-500,000 Sq. Ft.	501,000-750,000 Sq. Ft.	751,000-1 million Sq. Ft.	1 million+ Sq. Ft.
(Bases:)	(22)	(30)	(32)	(26)	(29)	(21)
	%	%	%	%	%	%
$50 or less	—	—	—	—	—	—
$51-$100	9	3	3	—	3	—
$101-$150	32	30	25	8	3	—
$151-$200	18	37	41	42	45	38
$201-$250	4	—	3	12	24	24
$251+	—	—	—	4	—	—
Refused	4	7	6	8	7	10
Don't know/ No answer	32	23	22	27	17	29
(Mean)	($139)	($149)	($155)	($184)	($184)	($194)

Source: *Chain Store Age Executive* research

ters 501,000 sq. ft. or larger represent the greatest sales growth potential for the remainder of 1984. However, 20% of the respondents differ in their assessment, expecting that the largest increase in sales over the remainder of 1984 will occur in centers ranging from 100,000 to 200,000 sq. ft. of GLA.

Further comparisons can be drawn between the responses of those developers who own/manage regional malls exclusively and those who own/manage neighborhood/strip centers exclusively. The average size in GLA of shopping centers presently owned/managed by the regional mall group is 798,000 sq. ft., compared with 198,000 sq. ft. for the neighborhood/strip centers.

In 1983, regional malls achieved sales levels of $167.90 per square foot of gross leasable area

The results show that, on the average, in 1983 regional malls achieved a higher level of sales per square foot of GLA, at $167.90, than did neighborhood/strip centers, with sales of $133.30.

For 1984 to-date, sales at regional malls have risen by approximately 2.7%, to $172.50 per square foot of GLA, while sales at neighborhood/strip centers increased by 3.2% to $137.50. Developers of each type of center anticipate that for all of 1984 sales productivity will increase significantly over 1983's levels. (For further information on neighborhood/strip centers, including a definition by size, as well as on other types of small center development, see story elsewhere in this *Shopping Center Age Section.*)

Average sales per gross square foot of GLA-1984

	Shopping Center Type	
	Regional Malls	Neighborhood/ Strip Centers
(Bases:)	(22)	(13)
	%	%
$50 or less	—	—
$51-$100	4	6
$101-$150	14	54
$151-$200	54	31
$201-$250	18	—
$251+	—	—
Refused	4	—
Don't know/ No answer	4	3
(Mean)	($172.50)	($137.50)

Source: *Chain Store Age Executive research*

Average sales per gross square foot of GLA in 1983

	Total
(Bases:)	(50)
	%
$50 or less	—
$51-$100	6
$101-$150	34
$151-$200	44
$201-$250	12
$251+	—
Refused	2
Don't know/no answer	2
(Mean)	($157.30)

Source: *Chain Store Age Executive research*

Participants in the survey were also questioned as to which of the following classifications of retail outlets are currently generating the highest sales per square foot at their centers: jewelry stores; regularly priced apparel specialty stores; off-price apparel stores; food-related retailers; drug chains; department stores, and entertainment/computer stores.

The largest proportion of respondents, 38%, cited regularly priced apparel specialty stores as accounting

A **Naperville Plaza** - Naperville, Ill. 110,000 sq. ft. anchored by Colony Foods and Moser Home Center.

B **Hometown Shopping Center** - Hometown, Ill. (87th & Pulaski) 75,000 sq. ft. anchored by Colony Foods and Duff's Famous Smorgasbord.

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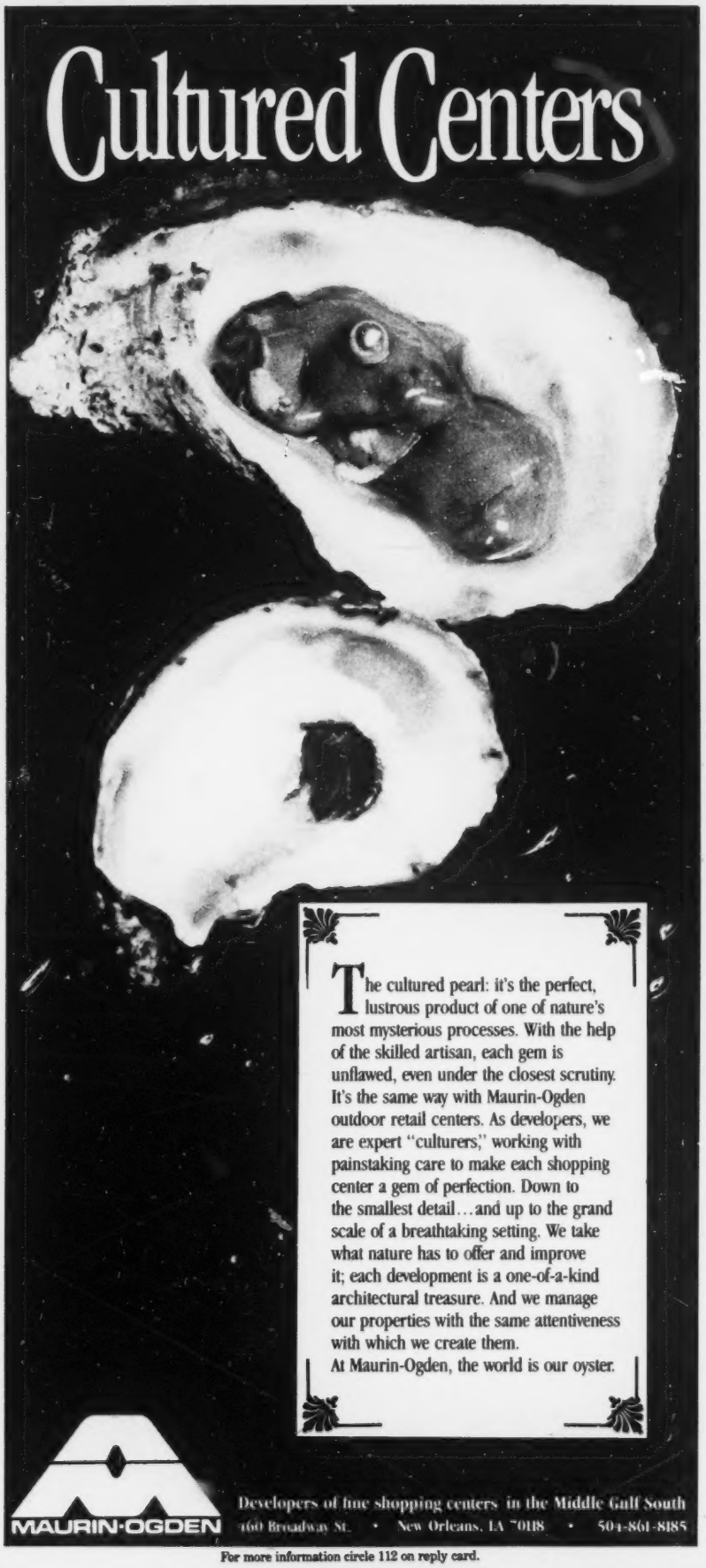
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for the highest sales volume. This classification is followed by jewelry stores, indicated by 20%, and off-price apparel specialty stores, reported by 18%.

Only 8% of the respondents cited food-related establishments as generating the highest sales per square foot, followed by 2% for drug chains, 2% for department stores and 2% for entertainment/computer stores. Results for other types of specialty stores were not investigated.

Comparing those involved exclusively in mall development and those involved with neighborhood/strip centers, 41% of the regional mall developers reported that regularly priced apparel specialty stores generate the highest volume in their centers, compared with 31% of the neighborhood/strip center developers. However, there are major variances in their experiences with sales volumes generated by the other retail classifications included in the survey.

For example, 36% of those involved in regional malls reported jewelry as their highest volume retail category. However, none of the neighborhood/strip center owners or managers cited this category. Conversely, 38% did point to off-price ap-

Type of store with highest sales per square foot

		Shopping Center Type	
	Total	Regional Malls	Neighborhood/ Strip Centers
(Bases):	(50) %	(22) %	(13) %
Regularly priced apparel specialty stores	38	41	31
Jewelry	20	36	—
Off-price apparel	18	—	38
Food-related	8	4	8
Drug chains	2	4	—
Department stores	2	—	—
Entertainment/ Computer stores	2	4	—
Don't know/ no answer	10	9	23

Source: *Chain Store Age Executive* research

Primary type of centers presently owned/managed

(Bases:)	Total (50)
Regional malls	66
Neighborhood/Strip centers	46
Outlet/Off-price centers	10
Mixed-use centers	8
Festival centers	4

Source: *Chain Store Age Executive* research

parel specialty stores, reported by none of those involved exclusively with the regional malls.

As for food-related establishments, these were reported to be the big sales generators by 4% of the regional mall people and by 8% of the neighborhood/strip center people. More surprisingly, drug chains were cited by 4% of the regional mall respondents but by none of the neighborhood/strip center group.

Department stores were listed by neither group and entertainment/computer stores were cited by only 4% of the regional mall respondents. Nine per cent of the regional mall group fell into the "don't know/no answer" group related to this question, compared with 23% of the neighborhood/strip center group. One of the main reasons for this discrepancy is the fact that fewer neighborhood/strip center developers have installed the sophisticated computerized sales tracking systems that are already online at most of the major mall development companies.

Sales per square foot of GLA for 1984 to-date are reported highest in the mid-Atlantic region

Broken down by region, 32% of the participants in this survey reported that most of their shopping centers are located in the Northeast region; 28% in the Southeast; 26% in the Midwest; 22% in the Southwest; 18% in the mid-Atlantic region, and only 4% in the Pacific region. A whopping 84% of the respondents reported that they own/manage shopping centers in one area of the country exclusively.

Size centers where greatest 1984 increases expected*

(Bases:)	Total (35) %
100,000 sq. ft. or less	3
101,000-200,000 sq. ft.	20
201,000-500,000 sq. ft.	9
501,000-750,000 sq. ft.	29
751,000-1 million sq. ft.	20
1 million + sq. ft.	17
Refused	3
Don't know/No answer	9

*Those who own/manage shopping centers of two or more sizes

Source: *Chain Store Age Executive* research

Area of the country with highest sales per square foot*

Mid-Atlantic	$191.70
Northeast	175.00
Midwest	169.40
Southwest	166.70
Southeast	150.00

Source: *Chain Store Age Executive* research

*Based on average sales per gross square foot of GLA to date in 1984 for those respondents who own/manage shopping centers in one region exclusively.

Of the majority which own/manage centers in only one region, average sales per square foot of GLA for 1984 to-date are reported highest in the mid-Atlantic region, at $191.70. This is followed by the Northeast, at $175, the Midwest, at $169.40, the Southwest, at $166.70, and the Southeast, at $150.

From all indications, retailers and developers should continue to benefit from the economic recovery at least through the remainder of 1984 with sales volumes continuing on an upward trend. This should hold true whether looking at centers broken down by type or by size, or at specific retail categories or specific geographic regions. ■

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